



Minutes of the IT Investment Board Finance and Audit Committee

December 7, 2004

Members Present:

Scott Pattison, Chair
Mary Guy Miller
Walter Kucharski

Members Absent:

None

Call to Order:

Scott Pattison, Chairman, called the meeting of the Information Technology Investment Board Finance and Audit Committee to order at 10:05 a.m. The roll was called each of the three members were recorded as present.

Mr. Pattison informed the committee that the ITIB Chairman had approved the nomination of two new members to the Finance and Audit Committee. The two new members will be announced at the afternoon ITIB meeting.

Approval of Minutes

Dr. Mary Guy Miller made a motion that the minutes of the October 4, 2004 meeting be approved. Walter Kucharski seconded the motion. The motion was carried unanimously.

Revised Motion of the CIO Ability to Approve Budget and Rate Submissions

Chairman Pattison stated that the Resolution authorizing the CIO to approve budget and rate submissions had been modified to include input from ITIB members. The new Resolution reads as such:

RESOLVED, that the Virginia Information Technology Investment Board assigns the Commonwealth Chief Information Officer authority to proceed with rate and budgetary submissions that come between Finance and Audit Committee meetings so as not to impede VITA's ability to perform day-to-day activities, in accordance with the following guidelines:

- *The CIO shall notify the Information Technology Investment Board members of the intent to approve or disapprove rate or budgetary submissions at least 5 working days before taking such*

action. The CIO shall not proceed to approve or disapprove any rate or budgetary submissions if any Board member, within the 5 working day notice period, requests that the intended CIO action be presented for review to the Information Technology Finance and Audit Committee followed by submission to the Board for approval.

- *At each regularly scheduled meeting of the Board, the CIO shall report to the Board on those rate or budgetary submissions and related issues and CIO approvals and disapprovals taken since the last regularly scheduled meeting of the Board.*

Walter Kucharski made a motion to approve the modified Resolution. Dr. Miller seconded the motion. The motion carried unanimously.

Finance Report

Austin Matthews reported as follows:

FY04 Financial Results:

Internal Service Funds

In VITA's internal service funds, the projected revenues were revised to reflect the net revenue increase resulting from new billing rates approved by JLARC in November.

Revenues and expenses, as a percent are lower in the first four months of the fiscal year. The percentage decrease was expected due to the graduated pace of large agency transitions and the learning curve associated with the new eVA ordering and receiving processes. Lem Stewart informed the committee that as of December 7th, the large agency merger is complete, with no exceptions. The revenue and expenses impact of the transitioned agencies should align with the budget in the 3rd and 4th quarters of the FY.

There is a concern regarding the direct bill implementation causing a decrease of \$10 million of cash flow. Direct bill requires VITA to pay salaries and vendor invoices for transitioned agency IT goods and services, and then bill. This results in a lag between payment for goods and services and receipt of customer revenues, causing a decrease in cash balances.

Discussion regarding the bill-paying process in state government was entertained. Austin Matthews stated that with the processing of the December 16th payroll, VITA will be able to measure the full impact of transitioned employees and the 3% salary increase on monthly expenses. VITA Finance Staff is working with the Secretary of Finance staff to develop a plan to resolve the cash flow issue. The status of this analysis will be reported at the next Finance and Audit Committee meeting.

Enterprise Funds

Portal Access Program - Budgeted revenue and expenses were reduced by \$32 million to remove "pass-thru" funding for VITA's portal access program, VIPNet. Because VITA acts as only as transfer agent for these funds, they have been removed from VITA's budget.

E-911 Services Board - Budgeted revenues and expenses have been adjusted to reflect a decrease in estimated revenue of \$2 million and an equal reduction in expenses. The E-911 fund took in \$12 million in revenue during the first four months of the year and paid out almost \$16 million to providers, accounting for the loss in the fund through October 2004. The E-911 expenses exceed revenues in the early part of a fiscal year due to year-end close out payments to carriers. Additionally, current fiscal year payments are often made at the beginning of a quarter before revenues are received. A potential liability may significantly affect the fund balance in this account. A more accurate assessment will be made after January 1 when full expense reports are submitted from service providers.

General Funds

These funds are ear-marked to primarily support VITA's Strategic Management Services directorate. Spending is on target with the budget with about one-third of the funds expended through October. Because the funds must be used in the year appropriated, expenditures will not exceed appropriations at the end of the fiscal year.

Special Revenue Funds

Budgeted expenses were adjusted to reflect anticipated spending of prior year fund balances. The largest account, the IFA fund, is just over \$547,000. Transfers for this expense will occur in the 4th quarter.

Federal Funds

Expenditures are on target to complete grant funded activities as planned. Having received a federal grant earlier than anticipated, VITA carried over almost \$2 million in federal funds from FY 04. VITA is awaiting approval of \$950K in additional Homeland Security funds, intended to build the Commonwealth's incident management capability and submitted to the Virginia Department of Emergency Management (VDEM) in October. VITA also received almost \$187,000 in additional Homeland Security grant funds from VDEM to support additional functionalities in the Statewide Alert Network in early FY 2005.

Prompt Payment Compliance

Prompt pay compliance in October dropped to 86.5% as VITA implemented the Direct Bill process with the first wave of large transitioned agencies. The challenges are three-fold: (1) a transitioned agency must send IT invoices to VITA for payment, (2) transitioned agencies must learn a new ordering procedure that includes adding VITA as the "bill to" address, and (3) agencies must implement a new procedure to "receive" the goods or services in eVA.

The Commonwealth prompt payment guidelines require that agencies pay vendors promptly with 30 days of receipt of goods and services. With transitioning agencies ordering through eVA, lagging occurs in receipt vs. payment timeframe. VITA is working with DGS to resolve issues with eVA. This problem should be resolved with training of agency and VITA employees on new procedures.

Discussion was entertained regarding the eVA process.

Savings Report Update

One new initiative was added:

DGS Small Server Consolidation - As part of the Capitol Renovation Plan, there was no need for a data center in the planned facilities. Agencies affected by the consolidation will share servers and other network tools provided by VITA. This resulted in a cost savings of \$41,000 per year and a one-time cost avoidance of \$395,000.00.

VITA Working Group - VITA has established a working group to develop a consistent, reusable template that can be used to document baseline costs of specified IT services and new VITA shared services costs to determine benefits. In addition, the working group will document the process for use of the format and definitions of each line-item on the template so it can be applied consistently, and will develop a documentation format to gain approval of the methodology and template from the Secretary of Finance, Auditor of Public Accounts, and the Information Technology Investment Board.

This group has received input from APA staff and has also provided updates to both JLARC and Secretary of Finance staff. Target date for completion is mid-December 2004.

Dr. Miller stated that agency-specific information tracking cost avoidances should be shared with agencies so that they will be able to see actual cost savings. Lem Stewart stated that this information can be provided by agency; however, it cannot provide by specific funding source.

Lem Stewart presented a chart entitled "Value of Transformation." The chart gave a visual of cost savings and avoidances from FY04 through FY10. He specified that if VITA's objectives are achieved, by the end of FY 10, the Commonwealth will spend approximately \$83 million less per year through the transformation process.

2004-2006 Biennial Budget Amendment Update

VITA submitted to the Department of Planning and Budget (DPB) eleven amendments to the 2004-06 biennial budget on October 13th. These amendments were approved by the ITIB that day, prior to their submission. Eight of the amendments requested additional funding; three requested revisions to language in the current Appropriation Act (Chapter 4).

In mid-November, with DPB's concurrence, VITA submitted an additional budget amendment seeking funding (\$0.5M) for several agencies' unbudgeted expenses for the performance of Independent Verification and Validation (IV & V) audits of major IT projects during the current fiscal year. This issue is being considered by DPB as well as the amendments initially proposed.

Joint Legislative Audit and Review Commission (JLARC) Rate Submission Update

A rates sub-committee was established by JLARC to review rate revision proposals prior to their consideration by the full commission at its October 12th meeting. CIO Lem Stewart presented the rate revision proposal to the new JLARC rates subcommittee on November 3, obtaining approval of all recommended rates. At its meeting on November 8, the Commission approved VITA's rate submission in full. It is retroactive to November 1, 2004.

- Rate correction – COVANET - (\$1.0 million)
- Product line rate adjustments - (\$0.5 million)
- New service rates - (\$0.1 million)

The COVANET rate change has elicited considerable comments and concerns from affected customers, although the Commonwealth is significantly benefiting from net savings for this service.

Status of Audit Director Search

The process for hiring the Audit Director continues. There were 17 applications received. The Interview Committee is in the process of reviewing 7-8 candidates. All interviews are expected to be completed by Monday, December 13th. Out of the candidates interviewed, four will be selected for second interviews.

After discussion, it was decided that interviews for the top four candidates will take place during the week of December 20th and interviewed by members of the Audit and Finance Committee. Scott Pattison stated that interviews will be open to any Board member. Austin Matthews stated that VITA staff will coordinate interview schedules. A set of draft questions will be developed. Roz Witherspoon will contact other Board members for suggested interview questions.

Other Business

Scott Pattison informed the committee that negotiations have recently reopened with owners of the Richmond Plaza Building regarding VITA office space.

Public Comment

Scott Pattison asked all attendees to introduce themselves and opened the floor for comment. There was no public comment.

Adjourn

A motion was made by Scott Pattison to adjourn. Dr. Miller seconded the motion. There being no further business, the committee meeting adjourned at 11:15 a.m.